

April 11, 2008

Mayor Kearney and Council Members:

I am pleased to present the Manager's Recommended Budget for Fiscal Year 2009 totaling \$443,373,992 which is a 1.77% increase over the FY2008 Approved Budget. Of this total, the City portion of the budget is \$227,493,750 or 1.29% less than the FY 2008 Approved Budget. The Schools portion of this budget is \$215,880,242 or a 5.22% increase over FY2008.

This budget both protects existing city services and funds many critical enhancements that will make a difference in the community while simultaneously reducing the real estate tax rate 2 cents. This recommended tax rate reduction would bring our real estate tax rate to \$1.04 per \$100 of assessed value. This 2 cent tax rate reduction is significant in many ways.

Real estate assessments have slowed considerably in the last year, not only in Hampton but also statewide, thereby making it much more difficult to lower the tax rate. While this is the fifth straight year that staff has proposed a real estate tax decrease, prior years' efforts were less difficult to accomplish because of the large reassessment growth.

Moreover, due to the State budget difficulties, we faced a real loss in State revenues. The final adopted budget by the General Assembly passed close to \$1.1 million of real cuts to the State revenues received locally. This was on top of the approximately \$800,000 in cuts the Governor imposed mid-year on State revenues, including local law enforcement funding (known as HB599) and ABC profits among others. Altogether, we had to absorb nearly \$2 million in State revenue losses.

Thus, with little reassessment growth – only 2% for residential properties – and a net loss in State revenues, we had to look for internal savings to be able to both lower the tax rate and maintain core service delivery. Nonetheless, because of a slowing economy, we pushed to do just that so we could continue to provide our residents with

tax relief. The 2 cent reduction basically offsets the impact of the average 2 percent reassessment growth in residential properties.

This is particularly noteworthy since the Council adopted financial guideline on real estate tax growth would not have required such a reduction. That policy stipulates that real estate tax revenue growth, net of new construction, from one fiscal year to the next shall be limited to the equivalent percentage increase in an inflationary growth factor as measured by either the consumer price index for urban dwellers (CPI-U) or resident income growth (RI); whichever is greater in any given year. The 2% residential reassessment growth is indeed lower than both of these measures.

The \$1.04 per \$100 of assessed value rate, if accepted by Council, would make Hampton's rate *the lowest it has been at anytime since at least the seventies*. This rate also gives the City of Hampton the lowest real estate tax rate of any urban city in the Hampton Roads region, except for the City of Virginia Beach, a much wealthier community by many measures.

It is worth noting here that while our funding formula with the School System would suggest that the School System share in the reduction of real estate revenues due to the 2 cent tax rate reduction, I have exempted them from their share of the reduction. Their share of a 2 cent reduction would have properly been \$982,496. However, because of the Council's and community's strong commitment to public education, I opted to find the funds to absorb this impact to the Schools internally on the City side of the budget. The result is that, if accepted, this budget will fund the Schools by nearly \$1 million more than required by our local funding formula.

Service enhancements included in this budget include the mid-year opening and operational costs associated with the Teen Center, a new aquatics facility and the Buckroe fishing pier. Two additional 911 emergency dispatch operators are also added as are the full year expenses associated with the Internal Audit and Federal Facilities support functions. Three positions added to the Public Communications function when it merged mid-year into the re-titled Community & International Relations Office are also funded for a full-year. Also included is funding to pay for public use of the Boo Williams Sportsplex and the Hampton Housing Venture program for the Sussex area.

Noteworthy capital improvement projects include: Factory Point restoration and breakwaters; Back River and Hampton River dredging; demolition and reconstruction of the Old Hampton Community Center; school maintenance projects; residential street resurfacing; New American Theater parking lot; master plan implementation funding in Phoebus, Downtown and Coliseum Central. I have also earmarked \$585,000 in stormwater funds to support a new drainage policy.

City debt service also increased this year due to last year's borrowing for two new PreK-8 schools. However, due to the dedication of 3 cents on the real estate tax rate and a \$2 million contribution from the Schools, this impact was fully absorbed without negatively impacting the budget.

I am pleased that I was able to produce these positive budget recommendations. However, as was noted earlier, the combined effect of a 2-cent tax reduction, the net loss of State revenue and the addition of these wonderful programs could not be done without internal reductions. Most city departments were asked to contribute to this need by slightly reducing their operating budgets. As a result, there will be 16 permanent full-time positions eliminated to help balance the budget. Operating funds in many departments have been decreased. Several capital improvement projects have been eliminated or delayed. Fund balance has been used to offset some of the capital items that remain intact. The amount of available contingency has been reduced. We have also reduced funding to outside agencies as part of a transitional plan to only fund those agencies with clear governmental connections (i.e. those who provide services that we as government would otherwise have to provide and/or which would increase our caseloads if they ceased to operate).

Regrettably, we also had to reduce the amount of funds for employee compensation. Our traditional compensation approach has been to provide for merit increase of 2-5% for our employees, with an average of about 4%. This year, with the tight funding situation, we have had to scale that back to a merit program which will only support increases of 2-4%, with an average of about 3%. We have also included funds to proportionately share in the 6% health insurance premium increases.

Together, these internal reductions and lower than usual employee compensation dollars, enabled us to balance this budget.

Finally, this budget does contain one user fee increase. The sewer user fee will be increased from \$1.07 per 100 cubic feet to \$1.48 per 100 cubic feet. This increase is required to fund the Department of Environmental Quality (DEQ) regional consent order obligation and to enhance sewer rehabilitation efforts. All regional localities are under the same obligations and thus we expect other cities to also raise this fee in their communities.

In summary, I just want to say that I am very proud of the staff and Council work that went into this budget process. A budget document represents the culmination of many hours of effort of many people. While this budget will not please everyone because of minor reductions in city department funds, delay in some capital projects, the reduction in outside agency funding and lower employee compensation dollars, I am nonetheless convinced it is the best budget staff could put forward. This is a balanced and fiscally

responsible budget that accomplishes all of Council's most immediate interests and goals. It invests in the protection and continued enhancement of our city's families, neighborhoods, business sector and quality of life AND simultaneously reduces the real estate tax rate for the fifth straight year.

I look forward to working with you during this budget deliberation phase. My staff and I are ready to assist you with any questions or concerns you may have regarding this budget recommendation.

Respectfully submitted,

Jesse T. Wallace, Jr.
City Manager

Internal Measures Taken to Balance Budget

Although this budget has received minimal growth in revenues, City staff continues to look at opportunities within the City to fund higher priority programs and stay within the imposed expenditure policies set by Council. This is accomplished through program reductions/eliminations, identifying program savings and the use of fund balance for one-time expenditures. The following identifies those internal measures taken to balance the FY09 Budget.

Use of Fund Balance to fund Capital Projects	4,000,000
Reduction in Department's budget for anticipated attrition	1,000,000
Reduction in Contingency	225,000
Reduction in Business Teams Operating Budgets	1,958,679
Reduction in average merit increase given employees	819,000
Reduction of funding to Outside Agencies that do not perform direct City services -- based on new policy	186,877
Capital Projects deferred or eliminated	<u>1,090,647</u>
Total Internal Measures	<u><u>9,280,203</u></u>

City Council Amendments to the Manager's Recommended Fiscal Year 2009 Budget

General Fund

Manager's Recommended FY 2009 Revenue Estimates	\$443,373,992
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Amendments to FY 2009 Revenue Estimates

Increase Revenues

Personal Property Tax - Current	500,000
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Total Council Approved Revenue Estimates	443,873,992
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Manager's Recommended FY 2009 Expenditures	443,373,992
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Amendments to FY 2009 Expenditures

Increase Appropriations

Retirement and Employment Benefits: Public Safety Competitive Pay	300,000
Civic and Community Support:	
ARC	3,000
Bay Days	12,500
Boo Williams Athletic Association	3,750
Boys and Girls Club	7,500
Career Café	3,750
Hampton Cup Regatta	10,000
JET Program	5,000
Marching Elites	4,700
Peninsula Reads	2,650
Retired Senior Volunteer Program	1,800
USO	2,500
Virginia Living Museum	5,250
Virginia Scholarship and Youth Program	5,000
Support Grant for CSB-Denbigh House	15,500
Fire Department for Volunteer Companies	38,064
Contingency	<u>79,036</u>
Total Expenditure Amendments	500,000

Total Council Approved Expenditures	\$443,873,992
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City Council Amendments to the Manager's Recommended Fiscal Year 2009 Budget

Capital Projects Fund

Decrease Revenues

Highway Safety Improvement Programs Funds	(\$2,201,700)
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Decrease Appropriations

Andrews Boulevard/Woodland Road Intersection Improvements	(512,550)
Armistead Avenue/LaSalle Avenue Intersection Improvements	(721,750)
East Pembroke Avenue/Grimes Road Intersection Improvements	(487,775)
Fox Hill Road/Clemwood Parkway Intersection Improvements	(306,500)
LaSalle Avenue/West Queen Street Intersection Improvements	(173,125)

	(\$2,201,700)
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Long-Term Strategic and Financial Planning

Strategic Objectives:

The Community Plan is based on visions and goals that define the City's desired future. Hampton's vision is "To make Hampton the most livable city in Virginia." It was determined that the vision for Hampton had eight key qualities:

1. Customer Delight
2. Healthy Business Climate
3. Healthy Growth & Development of Children and Youth
4. Healthy Neighborhoods
5. Healthy Diverse Community
6. Healthy Region
7. Strong Schools
8. Youth

The following are long-term initiatives that have been funded in the FY09 Budget that serves as a basis for one or more key qualities:

- ❖ Capital and operating funding to further implement the Master Plans in accordance with the Comprehensive Plan.
- ❖ Funding for a Director of Federal Facilities Support responsible for leading and directing Hampton's efforts to partner and build relationships with NASA, Langley Air Force Base and other federal organizations. To foster the continued operation, long-term prosperity and growth of Hampton-based operations consistent with the City's vision and values.
- ❖ Establishment of a new Community and International Relations Department to foster collaborations between the City of Hampton government and the education community in order to enhance the profile and strengthen our community outreach efforts; and to provide a comprehensive media communications regarding key issues, initiatives, recognition, and/or opportunities that impact citizens.
- ❖ Continue to provide customers service through our 311 Call Center and immediate responses from our Emergency 911 dispatch center.
- ❖ Ensure adequate staffing and competitive compensation for all employees.
- ❖ Continue the revitalization and economic development for blighted properties.
- ❖ Continue the redevelopment projects within neighborhoods through the Community Block Grant.
- ❖ Establish the initial funding for a new drainage program to address the lack of curb and gutters in older neighborhoods that have some impact on the speed and efficiency on City-wide drainage issues.
- ❖ Communities throughout the country, including Hampton Roads Region are addressing the issue of necessary upgrades to aging sanitary sewer systems. A Regional Content Order ratified by the State Water Control Board, require a five-year study period to identify the causes of overflows and to develop a plan to correct those problems. The

Long-Term Strategic and Financial Planning

FY09 budget provides for a 41-cent increase in sewer user fees from \$1.07 to \$1.48 in order to meet the commitments made under this Consent Order.

- ❖ Provide for leisure and recreational activities for our youth with the opening of the Teen and Aquatic Center in early 2009 and providing access for all citizens to the Boo Williams Sportsplex indoor track.
- ❖ Continues to fund the construction of two new Hampton City Schools.

Financial Objectives:

- ❖ Continuously refine the Five-Year Revenue and Expenditure Forecast in December of every fiscal year for long-term planning purposes.
- ❖ Continue to plan the Five-Year Capital Improvement Plan to ensure adequate financing.
- ❖ Consistently increase the local contribution to the Hampton City Schools in excess of State Required Match.